

**MEADE COUNTY  
SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

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October 21, 2016

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Meade County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10, 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Meade County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2016, on our consideration of Meade County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Meade County School District's internal control over financial reporting and compliance.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2016**

The discussion and analysis of Meade County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

The Management’s Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* issued in June 1999.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$12.7 million. This reflects an increase in cash from 2015 of \$851 thousand. This increase in cash is largely attributable to the District’s decision to finance the purchase of eight new buses through KISTA bonds in lieu of paying full cash.
- The general fund had an increase in fund balance of \$1.4 million for the year. All governmental funds combined had an increase in fund balance of \$500 thousand for the year.
- The food service fund ended the school year with a decrease in cash of \$89 thousand. This is attributable to decreased lunchroom sales of \$63 thousand and the District charging this program \$69 thousand for indirect costs. This is the first year that this program has been charged indirect costs.

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are our food service operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 16 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 – 41 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$38.4 million as of June 30, 2016.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Assets for the periods ending June 30, 2016 and 2015  
(Table 1)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 12,445,162	11,888,967	604,213	671,354	13,049,375	12,560,321
Capital Assets	<u>80,827,342</u>	<u>82,767,353</u>	<u>587,036</u>	<u>650,429</u>	<u>81,414,378</u>	<u>83,417,782</u>
Total Assets	<u>93,272,504</u>	<u>94,656,320</u>	<u>1,191,249</u>	<u>1,321,783</u>	<u>94,463,753</u>	<u>95,978,103</u>
Deferred Outflows	<u>2,946,608</u>	<u>1,139,698</u>	<u>361,676</u>	<u>146,931</u>	<u>3,308,284</u>	<u>1,286,629</u>
Current Liabilities	4,083,011	4,568,706	4,603	5,266	4,087,614	4,573,972
Non-Current Liabilities	<u>53,001,029</u>	<u>52,650,358</u>	<u>1,548,143</u>	<u>1,154,790</u>	<u>54,549,172</u>	<u>53,805,148</u>
Total Liabilities	<u>57,084,040</u>	<u>57,219,064</u>	<u>1,552,746</u>	<u>1,160,056</u>	<u>58,636,786</u>	<u>58,379,120</u>
Deferred Inflows	<u>700,694</u>	<u>863,040</u>	<u>103,188</u>	<u>128,960</u>	<u>803,882</u>	<u>992,000</u>
<b>Net Position</b>						
Investment in capital assets (net of debt)	37,904,941	35,391,207	587,036	650,429	38,491,977	36,041,636
Restricted	2,640,145	1,765,016	0	0	2,640,145	1,765,016
Other Purposes	0	0	(690,045)	(470,731)	(690,045)	(470,731)
Unrestricted	<u>(2,110,708)</u>	<u>557,691</u>	<u>0</u>	<u>0</u>	<u>(2,110,708)</u>	<u>557,691</u>
<b>Total Net Position</b>	<u><u>38,434,378</u></u>	<u><u>37,713,914</u></u>	<u><u>(103,009)</u></u>	<u><u>179,698</u></u>	<u><u>38,331,369</u></u>	<u><u>37,893,612</u></u>



### **Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2016, net of interfund transfers and bond proceeds, were \$48.6 million.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$8.5 million more than budget or approximately 28%. The variance is primarily explained by unbudgeted on-behalf payments made by the State of Kentucky in the amount of \$7.2 million for employee retirement and insurance.
- General fund budget expenditures to actual varied significantly in Instruction. The variance for instructional expenses is caused by the state on-behalf payments detailed above. General Fund monies were not required for facilities construction in the current year.

**Summary of Changes in Net Position for the periods ending June 30, 2016 and 2015  
(Table 2)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>REVENUES:</b>						
<b>Program revenues:</b>						
Operating grants and contributions	4,151,209	3,742,304	2,102,430	2,253,714	6,253,639	5,996,018
Capital grants and contributions	-	-	-	-	-	-
<b>General revenues:</b>						
Property taxes	6,519,955	6,229,719	-	-	6,519,955	6,229,719
Motor vehicle taxes	1,305,279	1,315,124	-	-	1,305,279	1,315,124
Utility taxes	1,332,070	1,346,932	-	-	1,332,070	1,346,932
Other taxes	23,648	-	-	-	23,648	-
Investment earnings	76,043	69,464	3,324	3,429	79,367	72,893
State and formal grants	32,029,977	32,185,685	-	-	32,029,977	32,185,685
Gain (loss) on asset disposal	11,618	-	-	(89)	11,618	(89)
Miscellaneous	381,168	504,971	(68,530)	3,381	312,638	508,352
<b>Total Revenues</b>	<u>45,848,237</u>	<u>45,416,975</u>	<u>2,811,523</u>	<u>3,083,161</u>	<u>48,659,760</u>	<u>48,500,136</u>
<b>EXPENSES:</b>						
<b>Program Activities:</b>						
Instruction	27,936,551	28,561,970	-	-	27,936,551	28,561,970
Student Support	2,650,781	2,233,857	-	-	2,650,781	2,233,857
Instructional staff support	1,761,781	1,391,459	-	-	1,761,781	1,391,459
District administrative support	1,132,555	1,184,129	-	-	1,132,555	1,184,129
School administrative support	2,274,181	1,624,847	-	-	2,274,181	1,624,847
Business support	541,262	484,049	-	-	541,262	484,049
Plant operation and maintenance	4,113,623	3,701,840	-	-	4,113,623	3,701,840
Student transportation	2,921,029	2,748,430	-	-	2,921,029	2,748,430
Facilities acquisition	512	-	-	-	512	-
Community service activities	369,739	378,971	-	-	369,739	378,971
Other	(670)	300,605	-	-	(670)	300,605
Interest cost	1,426,429	1,616,917	-	-	1,426,429	1,616,917
<b>Business-type Activities:</b>						
Food service	-	-	3,094,230	2,933,734	3,094,230	2,933,734
<b>Total Expenses</b>	<u>45,127,773</u>	<u>44,227,074</u>	<u>3,094,230</u>	<u>2,933,734</u>	<u>48,222,003</u>	<u>47,160,808</u>
<b>Change in Net Position</b>	<u>720,464</u>	<u>1,189,901</u>	<u>(282,707)</u>	<u>149,427</u>	<u>437,757</u>	<u>1,339,328</u>

## Governmental Activities

Instruction comprises 62% of governmental program expenditures. Support services expense make up 34% of government expenses. Interest costs and other account for the remaining 4%.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Cost of Governmental Activities  
(Table 3)**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Instruction	27,936,551	28,561,970	25,092,387	25,596,663
Support Services	15,395,212	13,368,611	14,432,425	12,949,026
Other	369,581	679,576	8,053	299,388
Interest Costs	1,426,429	1,616,917	1,426,429	1,616,917
<b>Total Expenses</b>	<b>45,127,773</b>	<b>44,227,074</b>	<b>40,959,294</b>	<b>40,461,994</b>

## Business-Type Activities

The business-type activities include the food service operation. This program had total revenue of \$2,876,729 and expenses of \$3,094,230 for fiscal year 2016. Of the revenues, \$774,299 was charges for services, and \$2,102,430 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

## The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$73.7 million and expenditures and other financing uses of \$73.2 million.

## General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process. It is the District's practice to not include state on-behalf payments in the budget.

## Capital Assets and Debt Administration Capital Assets

At the end of fiscal year 2016 the School District had \$80.9 million invested in land, buildings, equipment, and vehicles. Of this total, \$80.3 million were in governmental activities. Table 4 shows fiscal year 2016 and 2015 balances.

**Capital Assets at June 30, 2016 and 2015**  
**Net of Depreciation**  
**(Table 4)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	2,011,222	2,011,222	-	-	2,011,222	2,011,222
Buildings and improvements	75,253,570	78,010,391	-	-	75,253,570	78,010,391
Technology	189,170	285,359	1,787	1,824	190,957	287,183
Vehicles	2,616,249	2,132,699			2,616,249	2,132,699
General equipment	306,172	327,682	585,249	648,605	891,421	976,287
Total	80,376,383	82,767,353	587,036	650,429	80,963,419	83,417,782
Construction in progress	450,959	-	-	-	450,959	-
Total	<u>80,827,342</u>	<u>82,767,353</u>	<u>587,036</u>	<u>650,429</u>	<u>81,414,378</u>	<u>83,417,782</u>

**Changes in Capital Assets for the periods ended June 30, 2016 and 2015  
(Table 5)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Beginning Balance	82,767,353	85,053,531	650,429	503,595	83,417,782	85,557,126
Additions	1,434,842	839,107	40,329	270,394	1,475,171	1,109,501
Retirements	(375,655)	278,047	(1,550)	-	(377,205)	278,047
Depreciation	(2,999,198)	(3,403,332)	(102,172)	(123,560)	(3,101,370)	(3,526,892)
Ending Balance	<u>80,827,342</u>	<u>82,767,353</u>	<u>587,036</u>	<u>650,429</u>	<u>81,414,378</u>	<u>83,417,782</u>

Construction began on an addition to the Meade County Area Technology Center this year. Construction work in process as of June 30, 2016 totaled \$450,959.

#### **Debt**

At June 30, 2016, the School District had \$41,278,862 in bonds outstanding; of this amount \$1,936,312 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$2,421,862 is due within one year.

#### **District Challenges for the Future**

Meade County School District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent. The District has been required to provide financial support for unfunded mandates imposed by the state and federal government. Also, the state administered employee pension plans continue to be underfunded. This places a large possible future liability on all Kentucky School Districts.

Meade County Schools will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

#### **Future Budgetary Implications**

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2015 – 2016 with a contingency greater than the required minimum of 2%.

#### **Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Susan Fackler, CPA, Finance Officer, 1155 Old Ekron Road, Brandenburg, Kentucky, 40108, (270) 422-7500.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	12,189,468	540,586	12,730,054
Accounts Receivable:			
Taxes - Current	184,418		184,418
Taxes - Delinquent	10,932		10,932
Accounts	43,734	23,486	67,220
Intergovernmental - Federal	16,610		16,610
Inventories for Consumption		40,141	40,141
Total Current Assets	12,445,162	604,213	13,049,375
Noncurrent Assets - Note F			
Land	2,011,222		2,011,222
Construction in Progress	450,959		450,959
Buildings & Improvements	105,458,565		105,458,565
Furniture & Equipment	9,604,915	1,870,911	11,475,826
Less: Accumulated Depreciation	(36,698,319)	(1,283,875)	(37,982,194)
Total Noncurrent Assets	80,827,342	587,036	81,414,378
<b>TOTAL ASSETS</b>	<b>93,272,504</b>	<b>1,191,249</b>	<b>94,463,753</b>
Deferred Outflows Related to Pensions	2,336,050	361,676	2,697,726
Deferred Outflows Related to Advanced Bond Refundings	610,558		610,558
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>2,946,608</b>	<b>361,676</b>	<b>3,308,284</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>96,219,112</b>	<b>1,552,925</b>	<b>97,772,037</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	484,061	4,603	488,664
Accrued Salaries & Sick Leave - Note A	257,984		257,984
Advances from Grantors	276,016		276,016
KSBIT Assessment - Note Q	89,954		89,954
Bond Obligations - Note D	2,421,862		2,421,862
Capital Lease Obligation - Note E	188,667		188,667
Accrued Interest Payable	364,467		364,467
Total Current Liabilities	4,083,011	4,603	4,087,614
Noncurrent Liabilities:			
Bond Obligations - Note D	38,857,000		38,857,000
Unamortized Bond Premium	1,974,616		1,974,616
Capital Lease Obligation - Note E	1,454,872		1,454,872
KSBIT Assessment - Note Q	231,488		231,488
Net Pension Liability	10,206,046	1,548,143	11,754,189
Accrued Sick Leave - Note A	277,007		277,007
Total Noncurrent Liabilities	53,001,029	1,548,143	54,549,172
<b>TOTAL LIABILITIES</b>	<b>57,084,040</b>	<b>1,552,746</b>	<b>58,636,786</b>
Deferred Inflows Related to Pensions	700,694	103,188	803,882
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>57,784,734</b>	<b>1,655,934</b>	<b>59,440,668</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	37,904,941	587,036	38,491,977
Restricted for:			
Capital Projects	658,278		658,278
SFCC Escrow	1,981,867		1,981,867
Food Service		(690,045)	(690,045)
Unrestricted	(2,110,708)		(2,110,708)
<b>TOTAL NET POSITION</b>	<b>38,434,378</b>	<b>(103,009)</b>	<b>38,331,369</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>96,219,112</b>	<b>1,552,925</b>	<b>97,772,037</b>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	27,936,551	17,270	2,826,894		(25,092,387)		(25,092,387)
Support Services:							
Student Support Services	2,650,781		68,931		(2,581,850)		(2,581,850)
Staff Support Services	1,761,781		496,374		(1,265,407)		(1,265,407)
District Administration	1,132,555				(1,132,555)		(1,132,555)
School Administration	2,274,181		151,423		(2,122,758)		(2,122,758)
Business Support Services	541,262				(541,262)		(541,262)
Plant Operation & Maintenance	4,113,623		166,790		(3,946,833)		(3,946,833)
Student Transportation	2,921,029		79,269		(2,841,760)		(2,841,760)
Central Office					0		0
Food Service Operations	(670)				670		670
Community Service Operations	369,739		361,528		(8,211)		(8,211)
Facilities Acquisition & Construction	512				(512)		(512)
Interest on Long-Term Debt	1,426,429				(1,426,429)		(1,426,429)
TOTAL GOVERNMENTAL ACTIVITIES	45,127,773	17,270	4,151,209	0	(40,959,294)		(40,959,294)
BUSINESS-TYPE ACTIVITIES:							
Food Service	3,094,230	774,299	2,102,430			(217,501)	(217,501)
TOTAL BUSINESS-TYPE ACTIVITIES	3,094,230	774,299	2,102,430	0	0	(217,501)	(217,501)
TOTAL SCHOOL DISTRICT	48,222,003	791,569	6,253,639	0	(40,959,294)	(217,501)	(41,176,795)
GENERAL REVENUES:							
Taxes:							
Property					6,519,955		6,519,955
Motor Vehicle					1,305,279		1,305,279
Utility					1,332,070		1,332,070
Other					23,648		23,648
State Aid - Formula Grants					32,029,977		32,029,977
Investment Earnings					76,043	3,324	79,367
Miscellaneous					211,996		211,996
SPECIAL ITEMS:							
Funds Transfer (Expense)					68,906	(68,906)	0
Loss Compensation					100,266	376	100,642
Gain(Loss) Sale of Assets					11,618		11,618
TOTAL GENERAL & SPECIAL					41,679,758	(65,206)	41,614,552
CHANGE IN NET POSITION					720,464	(282,707)	437,757
NET POSITION - BEGINNING AS RESTATED - NOTE R					37,713,914	179,698	37,893,612
NET POSITION - ENDING					38,434,378	(103,009)	38,331,369

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	GENERAL FUND	SPECIAL REVENUE	BUILDING FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	9,134,817	292,211	1,899,433		863,007	12,189,468
Accounts Receivable:						
Taxes - Current	184,418					184,418
Taxes - Delinquent	10,932					10,932
Accounts	43,734					43,734
Intergovernmental - Federal		16,610				16,610
TOTAL ASSETS	<u>9,373,901</u>	<u>308,821</u>	<u>1,899,433</u>	<u>0</u>	<u>863,007</u>	<u>12,445,162</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	328,961	32,805			122,295	484,061
Accrued Salaries & Sick Leave	257,984					257,984
Advances from Grantors		276,016				276,016
Total Liabilities	<u>586,945</u>	<u>308,821</u>	<u>0</u>	<u>0</u>	<u>122,295</u>	<u>1,018,061</u>
Fund Balance:						
Restricted for:						
Capital Projects			242,640		415,638	658,278
SFCC Escrow			1,656,793		325,074	1,981,867
Committed For:						
Accrued Sick Leave	277,007					277,007
Other	425,000					425,000
Unassigned	8,084,949					8,084,949
Total Fund Balance	<u>8,786,956</u>	<u>0</u>	<u>1,899,433</u>	<u>0</u>	<u>740,712</u>	<u>11,427,101</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>9,373,901</u>	<u>308,821</u>	<u>1,899,433</u>	<u>0</u>	<u>863,007</u>	<u>12,445,162</u>

See independent auditor's report and accompanying notes to financial statements.



MEADE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		11,427,101
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	117,525,661	
Accumulated Depreciation	<u>(36,698,319)</u>	80,827,342
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		610,558
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		2,336,050
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(41,278,862)	
Unamortized Bond Premium	(1,974,616)	
Capital Lease Obligation	(1,643,539)	
Accrued Interest on Bonds	(364,467)	
KSBIT Assessment	(321,442)	
Net Pension Liability	(10,206,046)	
Accrued Sick Leave	<u>(277,007)</u>	(56,065,979)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(700,694)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>38,434,378</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL	SPECIAL REVENUE	BUILDING FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	4,200,999		2,318,956			6,519,955
Motor Vehicle	1,305,279					1,305,279
Utility	1,332,070					1,332,070
Other	23,648					23,648
Earnings on Investments	75,504				539	76,043
Intergovernmental - State	28,676,361	1,944,841	2,678,905	223,936	450,775	33,974,818
Intergovernmental - Federal	134,780	2,071,588				2,206,368
Other Sources	110,053	119,213				229,266
TOTAL REVENUES	35,858,694	4,135,642	4,997,861	223,936	451,314	45,667,447
EXPENDITURES:						
Instructional	21,623,289	2,889,965				24,513,254
Support Services:						
Student Support Services	2,498,845	70,469				2,569,314
Staff Support Services	1,205,776	507,449				1,713,225
District Administration	1,105,253					1,105,253
School Administration	2,040,852	154,801				2,195,653
Business Support Services	476,389			143,229		619,618
Plant Operation & Maintenance	3,882,782	170,511				4,053,293
Student Transportation	3,250,156	81,038				3,331,194
Food Service Operation	(670)					(670)
Community Service Operations		369,594				369,594
Facilities Acquisition & Construction					451,471	451,471
Debt Service:						
Principal	93,671			3,833,138		3,926,809
Interest	15,633			1,991,594		2,007,227
TOTAL EXPENDITURES	36,191,976	4,243,827	0	5,967,961	451,471	46,855,235
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(333,282)	(108,185)	4,997,861	(5,744,025)	(157)	(1,187,788)
OTHER FINANCING SOURCES(USES):						
Proceeds from Sale of Bonds				18,905,000		18,905,000
Bond Premium Received				2,039,358		2,039,358
Bond Principal - Refunding Bonds				(20,305,000)		(20,305,000)
Capital Lease Financing	873,064					873,064
Loss Compensation	112,201					112,201
Operating Transfers In - Note M	818,906	108,185		4,405,220	800,000	6,132,311
Operating Transfers Out - Note M	(108,185)		(4,755,220)		(1,200,000)	(6,063,405)
TOTAL OTHER FINANCING SOURCES	1,695,986	108,185	(4,755,220)	5,044,578	(400,000)	1,693,529
NET CHANGE IN FUND BALANCES	1,362,704	0	242,641	(699,447)	(400,157)	505,741
FUND BALANCES - BEGINNING	7,424,252		1,656,792	699,447	1,140,869	10,921,360
FUND BALANCES - ENDING	8,786,956	0	1,899,433	0	740,712	11,427,101

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		505,741
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(3,374,536)	
Capital Outlays	<u>1,434,842</u>	(1,939,694)
Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal Paid	24,231,809	
Capital Lease Proceeds	(873,064)	
Bond Proceeds	<u>(20,944,358)</u>	2,414,387
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization -Deferred Outflows from Advanced Bond Refundings	(38,829)	
Amortization - Bond Premiums	64,742	
District Pension Contributions	936,445	
Cost of Benefits Earned Net of Employee Contributions	(1,899,192)	
Deferred Outflows from Advanced Bond Refundings	492,997	
Accrued Interest Payable	61,888	
KSBIT Assessment	89,954	
Accrued Sick Leave	<u>32,342</u>	(259,653)
In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.		
Loss - Sale of Assets		<u>(317)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>720,464</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	<u>FOOD SERVICE</u>
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	540,586
Accounts Receivables	23,486
Inventories for Consumption	<u>40,141</u>
Total Current Assets	604,213
Noncurrent Assets:	
Furniture & Equipment	1,870,911
Less: Accumulated Depreciation	<u>(1,283,875)</u>
Total Noncurrent Assets	<u>587,036</u>
TOTAL ASSETS	<u><u>1,191,249</u></u>
Deferred Outflows Related to Pensions	<u>361,676</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>1,552,925</u></u>
LIABILITIES:	
Current Liabilities:	
Account Payable	<u>4,603</u>
Total Current Liabilities	4,603
Noncurrent Liabilities:	
Net Pension Liability	<u>1,548,143</u>
Total Noncurrent Liabilities	<u>1,548,143</u>
TOTAL LIABILITIES	<u><u>1,552,746</u></u>
Deferred Inflows Related to Pensions	<u>103,188</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>1,655,934</u></u>
Net Position:	
Net Investment in Capital Assets	587,036
Restricted	<u>(690,045)</u>
Total Net Position	<u>(103,009)</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>1,552,925</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>FOOD SERVICE</u>
OPERATING REVENUES:	
Lunchroom Sales	759,558
Other Operating Revenues	<u>14,741</u>
TOTAL OPERATING REVENUES	<u>774,299</u>
OPERATING EXPENSES:	
Salaries & Benefits	1,372,912
Contract Services	36,306
Materials & Supplies	1,573,926
Depreciation - Note F	103,722
Other Operating Expenses	<u>7,364</u>
TOTAL OPERATING EXPENSES	<u>3,094,230</u>
OPERATING INCOME(LOSS)	(2,319,931)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,716,237
State Grants	201,225
Donated Commodities	184,968
Gain (Loss) on Disposal of Assets	376
Interest Income	3,324
Transfer Out to General Fund	<u>(68,906)</u>
TOTAL NONOPERATING REVENUE	<u>2,037,224</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(282,707)
CAPITAL CONTRIBUTIONS	<u>0</u>
CHANGE IN NET POSITION	(282,707)
NET POSITION - BEGINNING AS RESTATED - NOTE R	<u>179,698</u>
TOTAL NET POSITION - ENDING	<u><u>(103,009)</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>FOOD SERVICE</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	754,026
Other Activities	14,741
Cash Paid to/for:	
Employees	(1,051,337)
Supplies	(1,393,883)
Other Activities	<u>(43,670)</u>
Net Cash Used by Operating Activities	(1,720,123)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer out to General Fund	(68,906)
Federal Grants	1,703,774
State Grants	<u>32,486</u>
Net Cash Provided by Non-Capital and Related Financing Activities	1,667,354
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Assets	376
Purchase of Fixed Assets	(40,329)
Receipt of Interest Income	<u>3,324</u>
Net Cash Provided by Investing Activities	(36,629)
Net Increase (Decrease) in Cash and Cash Equivalents	(89,398)
Balances, Beginning of Year	<u>629,984</u>
Balances, End of Year	<u><u>540,586</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(2,319,931)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	103,722
State On-Behalf Payments	168,739
Donated Commodities	184,968
Change in Assets and Liabilities:	
Inventory	(4,262)
Accounts Receivable	(5,531)
Accounts Payable	(664)
Net Pension Liability	<u>152,836</u>
Net Cash Used by Operating Activities	<u><u>(1,720,123)</u></u>
Schedule of Non-Cash Transactions:	
Donated Commodities	184,968
State On-Behalf Payments	168,739

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	287,606
TOTAL ASSETS	<u>287,606</u>
LIABILITIES:	
Accounts Payable	806
Due to Student Groups	286,800
TOTAL LIABILITIES	<u>287,606</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Meade County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Meade County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Meade County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Meade County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Meade County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.509 per \$100 valuation for real property, \$0.509 per \$100 valuation for business personal property, and \$0.546 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

### Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

### Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	277,007	Long-Term Sick Leave Commitment
General Fund	425,000	Other

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

### Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE C – CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk - Deposits.** Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$13,017,660. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2016, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Your Community Bank	15,376,002	13,017,660
Breakdown per financial statements:		
Governmental Funds		12,189,468
Proprietary Funds		<u>540,586</u>
Cash per Statement of Net Position		12,730,054
Agency Funds		<u>287,606</u>
Total Cash		<u>13,017,660</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Meade County School District Finance Corporation aggregating \$41,278,862.

The original amount of each issue and interest rates are summarized below:

2006	9,525,000	3.50% - 4.125%
2008	5,795,000	2.20% - 3.90%
2011	590,000	1.90% - 1.90%
2012	11,420,000	2.00% - 3.375%
2013	9,015,000	1.00% - 3.65%
2015 Refunding	7,080,000	1.00% - 2.625%
2016 Refunding	11,825,000	5.00% - 5.00%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Meade County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

On September 23, 2015, the District issued \$7,080,000 in Refunding Revenue Bonds with an average interest rate of 2.37 percent to advance refund \$6,795,000 of outstanding 2006B Bonds. The refunding was an advance refunding. The net proceeds of \$7,036,282 (after \$65,682 in bond issuance costs, and additional proceeds of \$21,964 in bond premium) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is \$525,246 as described in the bond issuance documents.

On March 2, 2016, the District issued \$11,825,000 in Refunding Revenue Bonds with an average interest rate of 5.0 percent to advance refund \$13,510,000 of outstanding 2006 Bonds. The refunding was an advance refunding. The net proceeds of \$13,761,715 (after \$80,589 in bond issuance costs, and additional proceeds of \$2,017,934 in bond premium) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is 1,370,444 as described in the bond issuance documents.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2016, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2016-17	2,421,862	1,301,403	209,678	3,513,587
2017-18	3,019,000	1,248,419	180,285	4,087,134
2018-19	3,070,000	1,185,581	180,282	4,075,299
2019-20	3,156,000	1,096,974	180,273	4,072,701
2020-21	3,228,000	1,002,073	180,262	4,049,812
2021-22	3,324,000	896,757	180,260	4,040,497
2022-23	3,345,000	785,548	126,328	4,004,220
2023-24	3,445,000	666,989	119,926	3,992,063
2024-25	3,560,000	540,443	119,926	3,980,518
2025-26	2,565,000	418,531	119,926	2,863,606
2026-27	2,560,000	315,580	106,301	2,769,279
2027-28	1,965,000	247,716	66,152	2,146,564
2028-29	1,575,000	181,653	66,151	1,690,502
2029-30	1,600,000	129,566	51,925	1,677,641
2030-31	1,220,000	82,519	23,407	1,279,112
2031-32	<u>1,225,000</u>	<u>41,344</u>	<u>25,230</u>	<u>1,241,114</u>
	<u>41,278,862</u>	<u>10,141,096</u>	<u>1,936,312</u>	<u>49,483,646</u>

Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	46,512,000	18,905,000	24,138,138	41,278,862	2,421,862
Capital Lease Obligations	864,146	873,064	93,671	1,643,539	188,667
KSBIT Assessment	411,396	-0-	89,954	321,442	89,954
Accrued Sick Leave	<u>527,266</u>	<u>202,382</u>	<u>194,657</u>	<u>534,991</u>	<u>257,984</u>
Governmental Activities					
Long-Term Liabilities	<u>48,314,808</u>	<u>19,980,446</u>	<u>24,516,420</u>	<u>43,778,834</u>	<u>2,958,467</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2023. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2016.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2016</u>
Buses	1,737,210
Accumulated Amortization	(115,517)
	<u>1,621,693</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2017	221,570
2018	209,357
2019	194,724
2020	194,639
2021	194,756
Thereafter	<u>816,917</u>
Net minimum lease payments	1,831,963
Amount representing interest	<u>(188,424)</u>
Present value of net minimum lease payments	<u>1,643,539</u>

Interest rates on capitalized leases vary from 1.00% to 2.625%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	2,011,222			2,011,222
Construction	0	450,959		450,959
Depreciable Assets:				
Buildings & Building Improvements	105,458,565			105,458,565
Technology Equipment	2,162,936	56,825	116,157	2,103,604
Vehicles	5,720,568	889,302	259,498	6,350,372
General Equipment	1,113,183	37,756		1,150,939
<b>TOTAL AT HISTORICAL COST</b>	<b>116,466,474</b>	<b>1,434,842</b>	<b>375,655</b>	<b>117,525,661</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Building Improvements	27,448,174	2,756,821		30,204,995
Technology Equipment	1,877,577	152,697	115,840	1,914,434
Vehicles	3,587,869	405,752	259,498	3,734,123
General Equipment	785,501	59,266		844,767
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>33,699,121</b>	<b>3,374,536</b>	<b>375,338</b>	<b>36,698,319</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>82,767,353</b>	<b>(1,939,694)</b>	<b>(317)</b>	<b>80,827,342</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	2,743			2,743
General Equipment	1,829,389	40,329	1,550	1,868,168
<b>TOTALS AT HISTORICAL COST</b>	<b>1,832,132</b>	<b>40,329</b>	<b>1,550</b>	<b>1,870,911</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	919	37		956
General Equipment	1,180,784	103,685	1,550	1,282,919
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>1,181,703</b>	<b>103,722</b>	<b>1,550</b>	<b>1,283,875</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>650,429</b>	<b>(63,393)</b>	<b>0</b>	<b>587,036</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				2,885,596
Student Support Services				
Staff Support Services				419
District Administration				17,794
School Administration				6,987
Plant Operation & Maintenance				43,602
Student Transportation				419,993
Community Service Operations				145
<b>TOTAL</b>				<b>3,374,536</b>

**NOTE G – RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

**General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

### **General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

**Contributions**—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 12.355% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 13.355% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

*Plan description*—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 11,754,189
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>137,569,137</u>
	<u>\$ 149,323,326</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was 0.27338% percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,115,583 related to CERS and \$2,845,117 related to KTRS. The District also recognized revenue of \$2,845,117 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 97,682	\$ -
Changes of assumptions	1,185,281	-
Net difference between projected and actual earnings on pension plan investments	105,367	793,600
Changes in proportion and differences between District contributions and proportionate share of contributions	224,292	10,282
District contributions subsequent to the measurement date	<u>1,085,104</u>	<u>-</u>
Total	<u>\$ 2,697,729</u>	<u>\$ 803,882</u>

\$1,085,104 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year ended June 30:</u>
2017	275,953
2018	275,953
2019	231,095
2020	4,425
2021	21,013

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Actuarial assumptions*—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.5%	7.5%	8.5%
District's proportionate share of net pension liability	15,005,682	11,754,189	8,969,573
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	0	0	0

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Pension plan fiduciary net position*—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

### NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

### NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers’ Compensation insurance.

### NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE K – DEFICIT OPERATING BALANCES

The Food Service Fund had a deficit fund balance in the amount of \$103,009 at June 30, 2016. Additionally, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Capital Outlay	749,225
Debt Service	699,447

### NOTE L – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE M – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	108,185
Operating	Food Service	General	Indirect Cost	68,906
Operating	Building Fund	General	Operations	750,000
Operating	Capital Outlay	Construction	Construction	800,000
Operating	Building Fund	Debt Service	Debt Service	4,005,220
Operating	Capital Outlay	Debt Service	Debt Service	<u>400,000</u>
		Total Transferred Funds		<u>6,132,311</u>

### NOTE N – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2016.

### NOTE O – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 21, 2016. On September 22, 2016 the district issued revenue bonds with a face amount of \$15,665,000 to fund the future construction and renovation of the Meade County Area Technology Center. There are no other material subsequent events requiring disclosure.

### NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2016, \$7,596,547 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$2,845,117
Health Insurance	4,205,285
Life Insurance	7,513
Administrative Fee	55,083
HRA/Dental/Vision	336,000
Federal Reimbursement	(154,388)
Technology	78,001
SFCC Debt Service Payments	<u>223,936</u>
Total	<u>\$7,596,547</u>

## NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2016, Meade County School District's remaining assessment is valued at \$321,442. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2017	89,954
2018	57,872
2019	57,872
2020	57,872
2021	<u>57,872</u>
Total	<u>321,442</u>

## NOTE R – NET POSITION, AS RESTATED

Beginning net assets of the Governmental Activities was overstated by \$1,029,321 and the beginning net assets of the Business-Type Activities was understated by \$17,971. Below are the details of the restatement:

	<u>Government Activities</u>	<u>Business-Type Activities</u>
Net Position June 30, 2015	\$38,743,235	\$161,727
Less: Elimination of bond issuance costs	(1,116,297)	
Add: Deferred outflows from advanced bond refundings	156,391	
Add: Overstatement of Bonds Payable	20,000	
Less: Understatement of KSBIT assessment	(289,361)	
Add: Overstatement of accrued sick leave	217,917	
Add (Less): Allocation deferred outflows on pensions	(146,931)	146,931
Add (Less): Allocation deferred inflows on pensions	<u>128,960</u>	<u>(128,960)</u>
Beginning Net Position, As Restated	<u>\$37,713,914</u>	<u>\$179,698</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION**

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	6,055,000	6,533,000	6,861,996	328,996
Other Local Sources	114,722	73,400	75,504	2,104
State Sources	21,195,500	21,286,000	28,676,361	7,390,361
Federal Sources	0	0	134,780	134,780
Other Sources	107,128.00	269,545.00	1,914,224	1,644,679
TOTAL REVENUES	27,472,350	28,161,945	37,662,865	9,500,920
EXPENDITURES:				
Instructional	16,716,504	16,902,682	21,623,289	(4,720,607)
Student Support Services	2,176,145	2,227,282	2,498,845	(271,563)
Staff Support Services	1,093,948	1,103,928	1,205,776	(101,848)
District Administration	1,090,463	1,097,313	1,105,253	(7,940)
School Administration	1,641,036	1,685,047	2,040,852	(355,805)
Business Support Services	427,720	349,120	476,389	(127,269)
Plant Operation & Maintenance	3,807,891	3,989,968	3,882,782	107,186
Student Transportation	2,721,662	2,926,834	3,250,156	(323,322)
Food Service Operations	33	833	(670)	1,503
Principal	0	0	93,671	(93,671)
Interest	0	0	15,633	(15,633)
Other	65,000	70,000	108,185	(38,185)
TOTAL EXPENDITURES	29,740,402	30,353,007	36,300,161	(5,947,154)
NET CHANGE IN FUND BALANCE	(2,268,052)	(2,191,062)	1,362,704	3,553,766
FUND BALANCES - BEGINNING	2,268,052	2,191,062	7,424,252	0
FUND BALANCES - ENDING	0	0	8,786,956	3,553,766

On-behalf payments totaling \$7,796,547 are not budgeted by the Meade County School District.

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	50,500	48,500	119,213	70,713
State Sources	1,422,635	1,832,684	1,944,841	112,157
Federal Sources	2,047,184	2,048,871	2,071,588	22,717
Other Sources	185,172	123,275	108,185	(15,090)
TOTAL REVENUES	3,705,491	4,053,330	4,243,827	190,497
EXPENDITURES:				
Instructional	3,029,760	3,025,093	2,889,965	135,128
Student Support Services	18,651	59,825	70,469	(10,644)
Staff Support Services	267,600	344,648	507,449	(162,801)
School Administration			154,801	
Plant Operation & Maintenance	3,820	122,280	170,511	(48,231)
Student Transportation	0	124,659	81,038	43,621
Community Service Operations	385,660	361,735	369,594	(7,859)
Other		15,090		
TOTAL EXPENDITURES	3,705,491	4,053,330	4,243,827	(50,786)
NET CHANGE IN FUND BALANCE	0	0	0	139,711
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	139,711

See accompanying auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
KENTUCKY TEACHERS' RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	0.0%	0.0%
District's proportionate share of the net pension liability	\$ 0	0
State of Kentucky's share of the net pension liability associated with the District	<u>125,417,000</u>	<u>137,569,137</u>
Total	<u>\$ 125,417,000</u>	<u>137,569,137</u>
District's covered-employee payroll	\$ 18,481,831	18,733,274
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*



MEADE COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	0.273782%	0.237376%
District's proportionate share of the net pension liability	\$ 11,186,481	11,754,189
State of Kentucky's share of the net pension liability associated with the District	<u>0</u>	<u>0</u>
Total	<u>\$ 11,186,481</u>	<u>11,754,189</u>
District's covered-employee payroll	\$ 6,405,454	6,360,511
District's proportionate share of the net pension liability as a percentage of its covered-payroll	174.64%	184.80%
Plan fiduciary net position as a percentage of the total pension liability	66.801%	63.46%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MEADE COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$1,130,238	\$1,085,104
Contributions in relation to the actuarially determined contributions	<u>1,130,238</u>	<u>1,085,104</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$6,405,454	\$6,360,511
Contributions as a percentage of Covered employee payroll	17.67%	17.06%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MEADE COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
KENTUCKY TEACHERS RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$ 561,294	\$ 722,922
Contributions in relation to the actuarially determined contributions	<u>561,294</u>	<u>722,922</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$18,481,831	\$18,733,274
Contributions as a percentage of Covered employee payroll	3.04%	3.86%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MEADE COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016

**KENTUCKY TEACHERS' RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2016 reported in that schedule:

Valuation Date	June 30, 2014
Inflation	3.50 percent
Salary Increases	4.00 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	4.35 Percent
Measurement Date	3.82 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	5.23 percent
Measurement Date	4.96 Percent
Post-Retirement Benefit Increases	1.50% annually

MEADE COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

## OTHER SUPPLEMENTARY INFORMATION

MEADE COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016

	CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:			
Cash & Cash Equivalents	375,849	487,158	863,007
TOTAL ASSETS	<u>375,849</u>	<u>487,158</u>	<u>863,007</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable		122,295	122,295
Total Liabilities	<u>0</u>	<u>122,295</u>	<u>122,295</u>
Fund Balances:			
Restricted for:			
Capital Projects	50,775	364,863	415,638
SFCC Escrow	325,074		325,074
Total Fund Balances	<u>375,849</u>	<u>364,863</u>	<u>740,712</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>375,849</u>	<u>487,158</u>	<u>863,007</u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:			
Earnings on Investments		539	539
Intergovernmental - State	450,775		450,775
TOTAL REVENUES	450,775	539	451,314
EXPENDITURES:			
Facilities Acquisition & Construction		451,471	451,471
TOTAL EXPENDITURES	0	451,471	451,471
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	450,775	(450,932)	(157)
OTHER FINANCING SOURCES(USES):			
Operating Transfers In		800,000	800,000
Operating Transfers Out	(1,200,000)		(1,200,000)
TOTAL OTHER FINANCING SOURCES(USES)	(1,200,000)	800,000	(400,000)
NET CHANGE IN FUND BALANCES	(749,225)	349,068	(400,157)
FUND BALANCES - BEGINNING	1,125,074	15,795	1,140,869
FUND BALANCES - ENDING	375,849	364,863	740,712

See independent auditor's report and accompanying notes to financial statements.



MEADE COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	FUND BALANCE JULY 1, 2015	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2016
Meade County High School	176,262	722,054	703,488	194,828
Brandenburg Primary	9,626	30,705	28,935	11,396
David T. Wilson Elementary	2,978	41,709	39,993	4,694
Ekron Elementary	21,299	26,312	24,369	23,242
Flaherty Elementary	9,737	24,687	22,687	11,737
Flaherty Primary	20,787	26,203	22,796	24,194
Payneville Elementary	2,787	7,480	7,335	2,932
Stuart Pepper Middle	15,102	102,730	104,055	13,777
Total Activity Funds (Due to Student Groups)	258,578	981,880	953,658	286,800

See independent accountant's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	CASH BALANCE JULY 1, 2015	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2016	ACCOUNTS RECEIVABLE JUNE 30, 2016	ACCOUNTS PAYABLE JUNE 30, 2016	FUND BALANCE JUNE 30, 2016
Athletic	1,117	110,196	109,651	1,662	0		1,662
Boys Basketball	6,780	9,860	9,474	7,166	0	0	7,166
Cheerleaders	191	788	979	0	0	0	0
Football	21,396	17,114	24,248	14,262	0	0	14,262
Youth Football	2,858	25,607	25,722	2,743	0	0	2,743
Wrestling	27	5,285	5,309	3	0	0	3
Girls Basketball	2,108	2,600	3,115	1,593	0	0	1,593
Boys Golf	215	4,838	3,345	1,708	0	0	1,708
Boys Soccer	2,267	3,797	4,246	1,818	0	0	1,818
Softball	586	34,840	32,459	2,967	0	0	2,967
Boys Tennis	163	1,640	1,624	179	0	0	179
Volleyball	2,044	12,550	12,303	2,291	0	0	2,291
Cross Country	732	7,958	6,889	1,801	0	0	1,801
Swim	2,896	12,854	12,097	3,653	0	0	3,653
Baseball	68	3,700	2,161	1,607	0	0	1,607
Girls Golf	196	1,548	1,087	657	0	0	657
Girls Tennis	236	999	1,168	67	0	0	67
Girls Soccer	1,065	2,646	753	2,958	0	0	2,958
Track	2,560	2,590	2,566	2,584	0	0	2,584
Cross Country Boos	1,122	0	196	926	0	0	926
Bowling	267	2,105	954	1,418	0	0	1,418
General	5,062	3,010	2,155	5,917	0	0	5,917
Machine Fund	1,693	886	1,376	1,203	0	0	1,203
Parking	1,055	6,330	6,390	995	0	0	995
Textbook Rental	601	57,599	57,635	565	0	0	565
Machine Fund - Staff	3,424	2,492	3,120	2,796	0	0	2,796
Background Checks	0	670	670	0	0	0	0
Incentive Trips	0	13,183	13,183	0	0	0	0
Drama	15,158	6,780	8,506	13,432	0	0	13,432
FCA	223	369	200	392	0	0	392
FBLA	1,371	18,374	18,759	986	0	0	986
FFA	2,494	49,643	49,378	2,759	0	0	2,759
FCCLA	4,635	12,322	12,382	4,575	0	0	4,575
National Honors Society	2,950	9,711	7,704	4,957	0	0	4,957
Pep Club	314	515	263	566	0	0	566
GSA	157	314	470	1	0	0	1
Rodeo	21	0	0	21	0	0	21
SADD	2,232	1,600	2,437	1,395	0	0	1,395
SADD 2	2,728	77	500	2,305	0	0	2,305
Science Club	801	2,219	2,395	625	0	0	625
Foreign Language	126	372	463	35	0	0	35
TRI-M	335	860	964	231	0	0	231

Academic Team	96	189	130	155	0	0	155
Technology Club	270	1,530	1,424	376	0	0	376
Archery	0	0	0	0	0	0	0
FEA	13	464	457	20	0	0	20
Counselors	5,373	2,543	4,874	3,042	0	0	3,042
Family & Consumer SC	424	395	209	610	0	0	610
Library	269	618	351	536	0	0	536
Mathematics	58	0	0	58	0	0	58
Technology Education	5	750	750	5	0	0	5
Bookstore	96	0	96	0	0	0	0
English	0	475	475	0	0	0	0
Art	0	54	54	0	0	0	0
Teen Court	314	95	66	343	0	0	343
STLP	82	0	0	82	0	0	82
Student Ambassador	101	95	0	196	0	0	196
Book Club	0	44	43	1	0	0	1
Band	9,734	33,584	33,958	9,360	0	0	9,360
Chorus	6,113	77,200	79,555	3,758	0	0	3,758
Dance	1,129	9,905	8,694	2,340	0	0	2,340
Intramural	1,000	838	690	1,148	0	0	1,148
Student Government	7,735	10,766	9,394	9,107	0	0	9,107
Prom	3,654	20,625	17,614	6,665	0	0	6,665
Newspaper	1,184	2,655	2,160	1,679	0	0	1,679
Yearbook	23,936	14,186	2,820	35,302	0	0	35,302
Tidal Wave Bank	507	1,992	1,306	1,193	0	0	1,193
Greenhouse	721	1,319	1,502	538	0	0	538
Splash	422	0	422	0	0	0	0
Splash Publishing	941	1,208	481	1,668	0	0	1,668
Credit Retrieval Pro	379	0	379	0	0	0	0
Y-Club	122	6,250	6,017	355	0	0	355
JCC	103	140	0	243	0	0	243
FMD	183	313	240	256	0	0	256
SSS	63	0	0	63	0	0	63
Fine Arts	493	0	0	493	0	0	493
Wellness Program	492	23,151	23,152	491	0	0	491
Family Resources	10,101	1,844	3,412	8,533	0	0	8,533
School Nurse	2,451	3,360	1,707	4,104	0	0	4,104
Special Olympics	2,619	12,856	9,516	5,959	0	0	5,959
Dual Credit	120	1,520	1,500	140	0	0	140
iPads	685	50,148	50,643	190	0	0	190
Total All Funds	176,262	731,953	713,387	194,828	0	0	194,828
Interfund Transfers		(9,899)	(9,899)				0
Total	176,262	722,054	703,488	194,828	0	0	194,828

MEADE COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Parent Involvement	84.010	3100002	3104M	156
Title I - Grants to Local Educational Agencies	84.010	3100002	310A	204,686
Title I - Parent Involvement	84.010	3100002	310AM	8,651
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	771,082
Title I - Parent Involvement	84.010	3100002	310BM	493
Title I Grants to Local Educational Agencies Total				985,068 *
Title II, Part A -Teacher Quality Enhancement Grants	84.367	3230002	401A	33,387
Title II, Part A -Teacher Quality Enhancement Grants	84.367	3230002	401B	51,293
Title II - Part A Total				84,680
Perkins Voc.	84.048	3710002	348AA	705
Perkins Voc.	84.048	3710002	348B	27,313
Perkins Voc. - Total				28,018
Race to the Top	84.395	3960002	4521	7,488
Title III - English Language Acquisition State Grants	84.365	3960002	345A	1,987
Title III - English Language Acquisition State Grants	84.365	3960002	345B	152
Title III Total				2,139
IDEA - Special Education - Grants to State	84.027	3810002	3374P	6,768
IDEA - Special Education - Grants to State	84.027	3810002	337A	25,555
IDEA - Special Education - Grants to State	84.027	3810002	337AP	923
IDEA - Special Education - Grants to State	84.027	3810002	337B	883,501
IDEA - Special Education - Preschool Grants	84.173	3800002	343A	3,842
IDEA - Special Education - Preschool Grants	84.173	3800002	343B	43,606
Special Education Cluster				964,195
Total U.S. Department of Education				2,071,588
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Summer Meal Program	10.559	7690024-16	7690024-16	425
Summer Meal Program	10.559	7740023-16	7740023-16	9,102
National School Lunchroom	10.555	7750002-15	7750002-15	276,103
National School Lunchroom	10.555	7750002-16	7750002-16	937,513
School Breakfast Program	10.553	7760005-15	7760005-15	102,707
School Breakfast Program	10.553	7760005-16	7760005-16	382,972
Child Nutrition Cluster				1,708,822
Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	184,968
Total U.S. Department of Agriculture				1,893,790
Total Federal Financial Assistance				3,965,378

\* Tested as major program

MEADE COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Meade County School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Meade County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Meade County School District.

**NOTE B – FOOD DISTRIBUTION**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

MEADE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MEADE COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2016

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
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October 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – Audit Extension Request, Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report.* , the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Meade County School District's basic financial statements, and have issued our report thereon dated October 21, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Meade County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Meade County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Meade County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Meade County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Meade County School District in a separate letter dated October 21, 2016.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Meade County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Meade County School District's major federal programs for the year ended June 30, 2016. Meade County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contract, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Meade County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – Audit Extension Request, Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Meade County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Meade County School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Meade County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Meade County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Meade County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Meade County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Meade County School District's basic financial statements. We issued our report thereon dated October 21, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from

and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 21, 2016

**MANAGEMENT LETTER**

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

In planning and performing our audit of the financial statements of Meade County School District for the year ended June 30, 2016, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Current Year Recommendation:

During the course of the audit, it was noted that the school food service sustained a loss for the year and ended the year with a negative net position. We recommend that the District monitor the school food service program's profit or loss during the year and consider suspending the indirect cost transfer for years where the school food service is experiencing a loss.

Current Year Status:

We will monitor the school food service programs profit or loss throughout the year and consider suspending the indirect cost transfer until the program returns to a profit and the net position become positive again.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 21, 2016

Members of the Board of Education  
Meade County School District  
Brandenburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Meade County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by Meade County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 21, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Meade County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Meade County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 42 and 43, or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, or on the schedules of contributions to the County Employees Retirement Plan and the Kentucky Teachers Retirement System on pages 46 and 47, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Meade County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants